

APPRAISAL OF ACCESS POINTS

Actually, these appraisals are made to estimate the effect on value in a disposal of access control rights. They are usually initiated by a request from Division of Traffic with the appraisal being completed by an appraiser from the Division of Right of Way and Utilities, although at times, fee appraisers are employed to prepare the reports.

Access control is a property right considered to be part of the highway right of way (FHWA Memorandum; 3-4-82). When these rights are relinquished – *i.e.*, conveyed - to a private party or a public agency for nonpublic use, the Cabinet is due reimbursement for any change in value caused by the granting of access.

Typically, in these situations, an adjoining owner will make application to acquire access rights on a controlled or partially controlled highway. The appraisal problem essentially becomes the reverse of acquiring rights of access. This automatically brings into play the before and after value premise. The property is first appraised in its current situation without the access which is to be granted. Next, the property is appraised as though access rights have been granted. The difference between these two figures, if any, is the amount due the Cabinet for transferring its access control property right.

The owner of the tract to which access is being granted must bear the cost of constructing the actual entrance. Only the right of access will be granted; not physical access itself. This could become important when using market sales that had, at the time of sale, fully developed entrances.

The appraiser should submit an original and three copies of these reports to be reviewed at two levels.

APPRAISALS FOR OTHER AGENCIES

The Division of Right of Way and Utilities is frequently requested to appraise or review appraisals made for purposes other than for right of way acquisitions. These may involve the acquisition and/or disposal of various properties for which State or Federal funds have been, or will be, expended.

The appraisals should be prepared in narrative form using 8 1/2 x 11 inch paper, and should be bound by a soft binder. An original and three copies should be submitted. The appraiser should keep a separate record copy.

The initial review is to be made by the assigned review appraiser. The original and three copies of the appraisal is to be submitted to the Central Office for review. The written review should be in memo form with the appropriate identifying information in the heading. An appraisal summary with signature lines for the second level review appraiser and Appraisal Manager should also be submitted.

All narrative appraisal reports must comply with the following requirements:

APPRAISAL REQUIREMENTS FOR COMMONWEALTH OF KENTUCKY

APPRAISALS - The Commonwealth should secure at least one appraisal made by a qualified appraiser for each parcel acquired. The appraisal should be an analytical narrative report following current professional appraisal practices involving the application of standard techniques; such as, the Sales Comparison, Cost and/or Income Approaches to value. Other portions of the report, such as introductory and supporting data, limiting conditions and certifications should also meet these standards. The formality of documentation should be governed by the type of acquisition and the complexity involved. The Commonwealth does not wish to impose unduly stringent requirements but does require adequate and complete documentation. All appraisals must be independently prepared by qualified appraisers, either staff or fee.

The report on any individual property may vary depending upon the type of property being appraised. Extensive data may be required in the case of highly specialized or complex properties. A lesser amount of data may be required when the complexity is considered minor. Generally, all items must be considered by the appraiser and included in the report. If any item is omitted, the reason should be adequately explained.

The Appraisal Report Should Cover:

1. **Qualifications.** Statement of qualifications of all appraisers and/or technicians contributing to the report.
2. **Statements of Special and Limiting Conditions.** The appraiser should list those limiting conditions and assumptions directly or indirectly influencing his final value conclusion. Some of these would be; that the title is assumed to be good and marketable, that the legal description furnished the appraiser is assumed to be correct, that the information supplied by others is, to the best of the appraiser's knowledge and belief, considered to be in conformity with the true facts, that no one, other than the appraiser signing the report, prepared the analysis, conclusions and opinions concerning real estate that are set forth herein, etc.
3. **Purpose of the Appraisal.** Under this heading, the appraiser should show the type of value to be determined and the definition thereof.
4. **Identification of Property.** Under this heading, the appraiser should identify the property that is being appraised. He should state the location of the property and furnish the legal description. A copy of the legal description may be included in the addenda of the report and referred to at this point. If a legal description has not been furnished the appraiser, or is not otherwise available, this fact should be noted in the appraiser's comments.

5. **City, Area, and Neighborhood Data.** Under this heading, the appraiser shall discuss those factors that may influence the value conclusions reached for the subject property. The social and economic factors of the community should be discussed only to the extent that they would affect the property being appraised. The discussion should include the residential, commercial, industrial and/or other expansion of the community, as applicable to the property being appraised. The various data should be analyzed to determine the stability of the area and neighborhood, and to estimate the future economic trends that may affect the final value conclusions.
6. **Property Data.**
- a. **Site.** Under this heading, the appraiser should indicate the size, dimensions and/or area of the subject site. A description of the type of soil, its topography, mineral deposits, easements, etc., should be given. If there is an indication that mineral deposits have more than a nominal commercial value, this fact shall be clearly stated. Possible stands of merchantable timber should be treated in the same manner.
- Further, the type of access(es) to the property should be clearly described and any detrimental or hazardous factors inherent in the location of the property should also be discussed under this heading. Some of these factors could be: contamination, land fills, noxious odors, erosion, flood plain, etc.
- b. **Improvements.** Under this heading, the appraiser shall describe all improvements. This may be by narrative or a schedule form attached, and shall include all dimensions and square foot areas. In the case of rental properties where the Income Approach is to be used, a statement should be included as to the method used in determining leaseable areas such as: gross, net, full floor, etc. Further, the condition of the improvements should be described in sufficient detail to allow the reader to understand the depreciation that may be assigned in the Cost Approach and/or any discount in rental value that may have been included by the appraiser.
- c. **Equipment.** This item shall be described by narrative or schedule form attached including all items of equipment with their type and purpose.
- d. **Condition.** The current physical condition and relative use and obsolescence shall be stated for each item or group appraised and, whenever applicable, the repair or replacement required to bring the equipment to usable condition.
- e. **Assessed Value and Annual Tax Load.** The appraiser shall include the current assessment, the tax rate and the dollar amount of real estate taxes for the property being appraised.

- f. **Zoning.** The appraiser shall describe the zoning for the subject property and all comparable properties included in his report. The appraiser shall list the uses permitted under the zoning classifications, or he may include a copy of the zoning regulations in the addenda of the report and make reference to them at this point. If rezoning is eminent, he shall discuss this under Item (7). If there is no zoning in effect, he should clearly explain this fact.
7. **Analysis of Highest and Best Use.** The appraiser should define the term highest and best use, and furnish a sufficient analysis to indicate the highest and best use that can be made of the subject property. The valuation should be based on this use.
8. **Land Value.** The appraiser's opinion of the contributing value of the land shall be based upon its highest and best use regardless of any existing structures, and shall be supported by confirmed current factual data (sales and offerings) of comparable, or nearly comparable, land parcels having like optimum uses. An analysis of the comparable market data shall be made to indicate the relationship to the subject property. All differences shall be discussed and adjustments - either plus or minus - made where applicable. Adjustments may be expressed in terms of dollars or a percentages, but the appraiser should clearly show why any adjustments made are reasonable.
9. **Value Estimate by Cost Approach.** This section shall be in the form of computative data, arranged in sequence, beginning with reproduction or replacement cost, and shall state the source (book and page, if a national service) of all figures used. The dollar amounts of physical deterioration and functional and external obsolescence, or the omission of the same, shall be explained in narrative form. This procedure may be omitted on improvements, both real and personal, for which only a salvage or scrap value is estimated, if it can be clearly supported through narrative explanation that they contribute no other value.
10. **Value Estimate by Income Approach.** In using this Approach, the appraiser shall furnish sufficient market rental information to support the estimated economic rent for the subject property. Each market rental furnished shall be discussed to show how it relates to the economic rent. The appraiser shall prepare an operating statement showing the estimated gross annual rent, allowances for vacancy and credit loss, and an itemized estimate of all expenses including reserves for replacement. An explanation should be furnished showing the source of each expense item.

Capitalization of net income shall be at the rate prevailing for this type of property and location. The capitalization technique, method and rate used shall be explained in narrative form supported by a statement of sources of rates and factors.

11. **Value Estimate by Sales Comparison Approach.** All comparable sales used shall be confirmed by the buyer, seller, broker, or other person having knowledge of the price, terms and conditions of sale. Each comparable shall be weighed and explained in relation to the subject property to indicate the reasoning behind the appraiser's final value estimate from this approach, and a dollar or percentage adjustment for each factor of difference shall be shown.

All adjustments made by the Appraiser shall be supported by some comparative analysis between sales. This type of analysis may be illustrated by graphs or supported through narrative explanation. Each comparable used should be described in detail as provided under Item 15-c.

12. **Interpretation and Correlation of Estimates.** The appraiser shall interpret the foregoing estimates and shall state the reasons why one or more of the conclusions reached in Items (9), (10), and (11) are indicative of the market value. If only one approach to value is used, the appraiser should clearly explain why he did not use the other approaches.
13. **Tabulation of History of Conveyance.** Under this heading, the appraiser should state briefly the purpose for which the improvements, if any, were designed, approximate date of original construction and any major renovation and/or additions. A 5 year record of all conveyances of subject property must be provided. Also, any recent leases that may have expired or offers to buy or sell, if possible. If no sale has occurred in the past 5 years, the appraiser should include the last source of title.
14. **Certification of Appraiser, to wit:**
 - a. He has personally inspected the property.
 - b. He has afforded the property owner or his designated representative the opportunity to accompany him at the time of inspection.
 - c. He has no present or contemplated interest in the property.
 - d. That any fee received for this appraisal is in no way contingent upon the value reported herein.
 - e. That in his opinion, the market value of the taking as of:

_____ is \$ _____.
(Valuation date)

(Signature)

(Date report submitted)

15. **Exhibits and Addenda.**

- a. Location Map. (Within the city or area).
- b. Comparative Map Data. (Show geographic location of the appraised property and the comparative parcels analyzed).
- c. Detail of the Comparative Data. All comparative market data included in the report shall be described in sufficient detail to allow the reader to understand its comparability to the subject property. Land sales shall be described showing dimensions and/or areas, frontages on streets or roads, access, topography, zoning at time of sale, present use, highest and best use and any improvements since the date of sale. The same applies to other land data such as ground leases, listings, etc.

Improved comparables shall be described in the same detail showing dimensions, square foot areas (1st and 2nd floors), number of rooms, baths, estimated age, effective age, general appearance and condition, and other factors that may be compared to the subject property such as, heating, air conditioning, special land improvements, etc.

- d. Plot Plan. Show shape, boundary dimensions, adjoining streets or roadways, natural barriers such as, creeks, steep topography, etc.
- e. Building Sketch. (Show all dimensions).
- f. Floor Plans. (When needed to explain the value estimate).
- g. Photographs. Pictures shall show the front and rear elevation of the major improvements, plus any unusual features. A front view of all comparables shall be included. Except for the overall view, photographs may be bound as pages facing the associated discussions and/or descriptions. All graphic material shall include captions.
- h. Other Pertinent Exhibits. (As applicable).

All maps and plans may be bound as facing pages opposite the description, tabulation, or discussions they concern. Exhibits a. and b. may be combined where a single map will show sufficient details of the subject and comparable sales.

APPRAISAL OF BILLBOARD SIGNS

In Kentucky, billboard signs are considered to be personal property affixed to the real property. For right of way acquisition purposes, they are considered to be those signs which advertise products or business activities foreign to the subject property. These structures are typically owned by individuals or businesses who lease the sign site from the fee landowner. Because they are treated as personal property, billboards are normally handled as relocation items and need not be included in appraisals. In rare instances where it is necessary to appraise a billboard, guidance will be provided by the Central Office staff.

SITE VALUATION: Sign sites are typically leased by the sign owner from the fee owner of the land. Ownership of both the sign and site is rare. Sign site leases seldom delineate a specific area, but usually describe a general location for the sign and state the sign owner's rights with respect to access, maintenance, renewal of the lease, etc. The appraiser should obtain a copy of the lease, if possible. Failing that, reporting of the terms of the lease will be accepted if verifiable.

If the sign is to be removed and cannot be relocated on the subject property, the compensation for the lost income stream must be estimated if the lease is determined to add value to the land. The appraiser should be aware that under Kentucky law, only "routine maintenance" on billboards is allowed, i.e., the structure may not be improved in a manner that significantly extends its physical life. This means that they have limited physical and economic lives just as buildings do. When billboards cannot be replaced on the subject property, the sign site must not be valued based on an income projection period which exceeds the sign's estimated economic life. In situations where the sign can be legally reconstructed or relocated with no negative effect on the income stream, a valuation of the sign site is not required.

VALUATION OF LEASEHOLD: Any leasehold interest the sign owner may have in the sign site must be valued. This is necessary in order to make an offer to the sign owner to extinguish the leasehold interest. (See also: LEASEHOLDS)

AIRSPACE AGREEMENTS

Section 156 of the "Surface Transportation and Uniform Relocation Assistance Act of 1987" states, in part, that "States shall charge, as a minimum, fair market value..... for the sale, use, lease, or lease renewals.....of right of way airspace acquired as a result of a project funded in whole or in part with Federal assistance made available from the Highway Trust Fund." It is required that fair market value be established whenever the airspace of a highway is to be utilized for other than highway use. Since leases for surface parking appear to be the most prevalent use of highway airspace, the following comments are geared toward those situations.

These are essentially ground leases and their rental value should be based upon their contributing value to the property with which they will be used (*i.e.*, the dominant tract). The first consideration in the use of a proposed airspace should be of its highest and best use (HBU). This should be identified on all new proposals as well as on those existing leases that come due for renewal. Once HBU is identified, some alternatives are presented depending upon the available market data.

1. **Rental Analysis:** When establishing the fair market rent, a complete appraisal may not always be necessary. A comparative rental analysis may be all that is required. This process is similar to the one used in the sales comparison approach to value. Rent comparables are researched, analyzed and compared to the subject using appropriate adjustments for differences between the properties. The result of this process is a reconciliation of the various indications of rental value into a final estimate of a fair rental value for the subject property.
2. **Property Appraisal:** In the absence of market rental data, a complete appraisal of the property is required. Following this course, a conventional appraisal of the property is made, and then a rate of return projected based on the appraised value of the property and a fair return on equity investment. This rate of return is applied by the Permits Branch of the Division of Traffic, and results in the fair market rental for the airspace lease.

In either case above, the format will probably be narrative since a rental value is being sought and not the value of a proposed acquisition. Basically, the appraisal process will still be employed covering such points as title, rights appraised, certification, property description, photos, sketches, comparable data, etc. The only significant difference will be in the valuation process and the final value conclusion.

SURPLUS AND EXCESS PROPERTIES

The Transportation Cabinet's Division of Right of Way and Utilities implements and coordinates the disposal of excess and surplus properties. There is a distinction between the two.

Excess Property: This is property that was acquired in excess of the Cabinet's needs. It was never used as a part of the project and is typically a small, low value remainder acquired in conjunction with the right of way actually needed.

Surplus Property: This is property which was actually needed for the project but has since (and after various approvals) been declared surplus to the needs of the Commonwealth and can be disposed of.

Either of these types of property may be sold to an individual or corporate entity (usually an adjoining owner) who has made application to buy them, or, may be offered at public auction and sold to the highest bidder. In either case, the property cannot be transferred for a price lower than the appraised amount or an amount that, when combined with other factors, is in the best interest of the Commonwealth to accept.

Appraisals of these types of properties may take one of two formats:

For a property that is being offered at public sale, only one value need be found. This is referred to as entity value, or the value of the property as it stands alone. Proper appraisal procedure and the appraisal process should be followed in preparing the report with particular attention given to collection of truly comparable data and the analysis of that data. The appraisal may be completed in narrative form or on RW 20 depending upon which one best fits the appraisal problem.

Two values are needed for a property that is being sold to an adjoining owner who has made application to buy it. The first value found, in a totally separate valuation process, is the surplus property's contributing value. This contributing value is the value the surplus will contribute in combination with the adjacent tract.

In theory, the contributing value estimate requires a procedure similar to a Before and After Value appraisal for acquisition - only in reverse.

1. First, the value of the adjacent property is appraised with the surplus right of way considered to be assembled with it.
2. Second, the value of the adjacent property is appraised without the surplus right of way.
3. The difference between these two values is considered the contributing value.

The appraisal methodology used to estimate contributing value may vary with the type of complexity of adjacent property involved. For this reason, a full description of the surplus tract is needed, and a complete description of the adjacent property, its highest and best use, the reason the surplus tract is needed and the effect that the assemblage will have on the total property. If these narrative descriptions can establish that no increase in value can be supported beyond the adjacent property's land unit value, then only an appraisal of the property owner's land value will be needed to support the unit value for the subject surplus right of way.

If these descriptions and data appear to support an increase in utility of the total property, over and above the adjacent land's unit value, an appraisal of the adjacent property with and without the surplus right of way will be required to estimate the contributing value.

For example, 1,000 sf of surplus might normally have a land unit value of \$2.00 per sf based on the adjacent owner's land value. However, when added to the owner's tract, the surplus might provide critically needed parking areas resulting in an increase of net operating income of say \$600 per year. The value then, could be closer to \$6,000 than \$2,000 indicated by unit value alone. This example reflects the inverse of severance damage.

In some cases, the date of valuation for surplus or excess property may be prior to the date of inspection, and the property may have been physically altered. This frequently occurs when an adjoining owner has obtained a permit to do grading, leveling or filling on the surplus in conjunction with site work on the adjoining tract. In some of these cases, the date of valuation will be a date before the site work was done. The appraiser should always obtain the effective date of appraisal from the Division of Right of Way and Utilities. If the property has been physically altered, it will probably be necessary to use project cross sections, original appraisal photographs, etc., to determine the physical features of the surplus before the site work was done.

Should the surplus property being appraised contain an encroachment from the adjacent property, the encroachment should be considered as it affects the contributing value of the surplus to the adjacent property.

As noted earlier, proper appraisal procedure and the appraisal process should be followed in the preparation of these reports. This includes all the data necessary to be considered a complete appraisal report. However, on small tracts where enough research has been completed to indicate that, obviously, the value will not exceed \$1,500, the valuation may be completed in memorandum form. The amount of detail in the memorandum will vary, but should contain, as a minimum, a brief description of the property, its location, neighborhood, highest and best use, the method of valuation, reference to sales used and the steps leading to the final value conclusion.

Appraisals of excess and surplus properties may be made by Division of Right of Way and Utilities staff or fee appraisers. They are submitted to the Division of Right of Way and Utilities for review, and receive both first and second level reviews (see Review Procedures). The appraiser should submit an original and four copies for review.

VALUATION OF LEASEHOLD INTERESTS

Leasehold Interests: Defined as the lessee's right to use and occupy the real estate during the term of the lease and restricted only by the contractual agreement.

It is policy that negotiations be conducted with only the fee owner of the property, although the leasehold interest, if requested, is to be derived and stated separately within the appraisal report. The owner, or lessor, may be advised during negotiations of the leasehold interest valuation for the purpose of aiding an agreement with the lessee.

The appraiser must document the measure of current market rent applicable to the subject in the same manner that comparable sales are used to establish current fair market value. The rental data must be analyzed to the same extent as sales data in order to arrive at fair rate that is reasonable in terms of quality and durability.

After current fair market rent has been established, the appraiser proceeds to compare the market data to the terms of the subject lease. If it is determined the lessee enjoys an advantage in contract rent, then the leasehold interest is computed by discounting the margin of the advantage over the term of the remaining contract much like an annuity would be discounted to present worth.

The appraiser is cautioned to be extremely careful in his interpretation of the lease data as to special provisions, concessions and revisions that may be stipulated within the contract agreement.

As pertains to all tenant interests, a release and transfer agreement must be obtained from the lessee if negotiations are successful. In the event of condemnation, the lessee becomes a party to litigation.

TENANT-OWNED REALTY

Part 24 of 49 CFR of the Code of Federal Regulations states:

"When acquiring any interest in real property, the Agency shall offer to acquire at least an equal interest in all buildings, structures, or other improvements located upon the real property to be acquired, which it requires to be removed or which it determines will be adversely affected by the use to which such real property will be put. This shall include any improvement of a tenant-owner who has the right or obligation to remove the improvement at the expiration of the lease term."

Simply put, this means that if a tenant has added improvements (either structures or site improvements) to a property, and both lessor and tenant agree the improvement(s) belong to the tenant, a separate offer must be made to the tenant to acquire those improvements. The value of the tenant-owned realty must be included in the overall compensation since this is the total amount of compensation to acquire the real estate on a particular parcel. However, somewhere in the review (and in the report), the value of the tenant's improvements must be separated from those of the owner so that individual offers can be made.

Sheet 10 should be used to itemize appurtenances belonging to the tenant. Before receiving any direct payment for improvements or fixtures, the tenant owner must assign, transfer and release to the state, all rights, title and interest in such improvements and fixtures. The appraiser must exercise caution to prevent any duplication of compensation when separate valuations are made.

MANUFACTURED STRUCTURES

The term “manufactured structure” refers to a structure that is cut, packaged, or assembled in one location to be shipped to another location for use as a residence, office, etc.. Some common types are:

1. Kits or packages containing "pre-cut" components for construction on a site. This kit normally includes instructional information for the purchaser/assembler or assembly by a franchise agent of the seller of the kit.
2. "Panelized" or "sectional" units are assembled in a jig or form on an assembly line. These units or sections offer standardized construction with rapid "on site" assembly.
3. Modular structures, are buildings assembled in modules - complete sections - for transport to a site for "set up." Modular structures are differentiated from the "mobile home" concept by the type of frame or framework on which the unit is transported. Most modular structures are transported on a framework that is removed once the unit is placed on a permanent foundation. Some manufacturers provide steel rails or frame as an integral part of the structure. running gear, wheels, axles, and springs along with the hitches are removed once the unit is placed on a permanent foundation.
4. Mobile homes, complete structures assembled on steel frame rails with running gear for transport from a manufacturing plant to the users site.

Typical construction of types, 1, 2 and 3 above, requires a permanent foundation for support. In all but exceptional cases, these completed structures are considered real property. Mobile homes may be handled in one of two ways:

1. If the land owner and mobile home owner are the same, the mobile home should be considered a fixture (real property).
2. If the land owner and the mobile home owner are different, the mobile home should be considered personalty.

In the second instance, items normally considered real property (room additions, porches, decks, septic systems) that belong to the tenant should be included as tenant-owned realty. (See *Tenant-Owned Realty*)

In some instances, a mobile home being acquired and falling into the second category above may be in such poor condition it cannot be moved without destroying it. In these unusual circumstances, the mobile home may be considered tenant-owned realty and included in the compensation.

Since this appraisal methodology is heavily dependent upon who owns what, it is incumbent upon the appraiser to verify the ownership of any mobile home being acquired. This means obtaining a copy of the title if at all possible, but at minimum, a personal visual verification of the of the Certificate of Title is necessary. The owner's name should be noted on Sheet 2 (of form RW 20) in the Five Year Sales Record/Last Source of Title.

Following is some general information on mobile homes:

Manufacturer identification labels are affixed to many structures in the form of a "data plate or sticker." One example is a residence by Gunnerson Homes, built in the 1950's, with a metal plate by the back door. Information on this plate includes the manufacturer's name, model number, and date of completion.

Mobile homes built after 1976 are required to meet the Federal Mobile Home Construction and Safety Standards, as defined in Title VI, Housing and Community Development Act of 1974. A HUD seal certifying compliance is to be displayed. This certification is found on a metal plate fastened to the left rear corner of most homes, and also on the manufacturer's label in homes built after 1980. Other information on the manufacturer's label on a mobile home is the manufacturer's address and plant number; date of manufacture; serial number; model identification; listing of factory installed equipment and specific design information about the roof, heat, and wind resistance.

Zoning ordinances, subdivision restrictions and other local regulations may restrict some methods of construction, or the placement of some modular or mobile units in certain locations.

Title ownership of many manufactured structures is transferred by deed as a part of the site owner's interest if the site and structure are commonly owned. Mobile homes are conveyed by title, similar to auto titles, through the County Court Clerk's office. Appraisers should obtain any serial number or label information to document that the correct structure is the subject of their report. In the absence of any other source of Serial Number information for a Mobile home, the number is usually embossed in the metal of the frame on the left side of the hitch just below the front wall of the home.

Construction quality of manufactured units can be as varied as any other type of construction. Structures can be found that are a "shell" for purchaser completion to some that are highly finished. Mobile homes range from the minimum required to comply with the HUD seal to some having a very high quality finish.

Quality indicators in a mobile home can be illusive. The industry is adept at presenting a "show quality" home that is appealing but of marginal construction quality. A careful look at the weave (loop count) of the carpet, inside of closets to see if both sides of the closet walls have been finished, kitchen cabinets to see if the base cabinets have a flooring panel, and if so, that it is better than masonite or 1/4 inch hardboard, or that the quality of the plumbing fixtures is adequate to offer a reasonable life expectancy. Quality adjustments may be necessary.

Comparison properties should be comparable. Tract-built houses may compare with some modular homes and some double-wide mobile homes on a permanent foundation, but one could not reliably compare a 14' x 70' mobile home with a standard construction home.

Cost data is available from several recognized national publications. Two of these publications, Marshall and Swift (Residential Cost Handbook) and the N.A.D.A. Mobile Home Manufactured Housing Appraisal Guide suggest that there are several quality levels. Familiarity with the quality descriptions of the publication used, and a thorough inspection of the subject of the appraisal is needed to produce a complete cost approach to value.

Income valuation is possible by use of rental comparisons found in most market areas. Direct comparison or side by side comparisons will yield sufficient comparisons to suggest an indication of value in most markets.

Salvage Values: Salvage values should be obtained from the district property management agent by the review appraiser, and included in the appraisal review.

APPRAISALS FOR COURT TESTIMONY

Assignments for appraisals in preparation for court testimony are made through Central Office. These may be new assignments or an assignment to update a previous report to the date of taking.

Appraisal reports received for purposes of court testimony must meet the appraisal requirements of the Commonwealth of Kentucky. (See *Appraisals for Other Agencies: Appraisal Requirements for Commonwealth of Kentucky* - Section IV, Page 2)

When the decision is made to obtain appraisal reports in preparation for trial, the trial attorney will solicit fee proposals from fee appraisers and forward them the witness coordinator in the Division of Right of Way and Utilities' Central Office. Appraisal fees are then negotiated by the Division's central office appraisal staff, and assignments made by them. Typically, appraisal assignments are made on the basis of 90-day submission schedules.

Appraisal reports and invoices are submitted directly to the witness coordinator. Appraisals submitted without the corresponding invoices will be returned immediately without review.

Invoices for the appraisal reports are approved in the Division of Right of Way and Utilities for the agreed fee – no day/date notations are necessary. Invoices for meetings, pre-trials, court appearances, etc., must contain calendar dates worked at the per diem rate and must be approved by the trial attorney. When an invoice is approved for payment, a copy of that invoice and a note of approval will be sent to the appraiser advising him that a check will be sent in about 10 days.

If an appraisal does not meet Cabinet requirements, the report and a reviewer's checklist will be returned to the appraiser along with the invoice.

If the appraisal meets the Cabinet's technical requirements but is not recommended for court testimony, the invoice will be paid and a copy of the review sent to the attorney and the appraiser.

If the appraisal meets the Cabinet's technical requirements and is recommended for court testimony, the invoice will be paid, a copy of the review sent to the appraiser, and a copy of the review and approved report sent to the trial attorney.

The original and two copies of these reports are submitted to the witness coordinator in the Division's Central Office. These reports must be submitted by the date specified in the appraisal assignment letter..

When the appraiser who originally appraised the property for acquisition has been notified he will be a witness in the case, it is necessary that he prepare an updated appraisal report (or update the original) reflecting the new effective date (date of taking). These updates should be submitted as noted above.

Review of Appraisals for Court Testimony:

Only one review is made of a court testimony appraisal. The second level review appraiser reviews it in the same manner as other reports submitted for review. After the review is completed, it is signed by the review appraiser and Appraisal Manager, approving or disapproving its use as a basis for court testimony, and then forwarded to the trial attorney.

Appraisal reports for court testimony that do not exceed the original approved compensation by a certain (percentage) amount will not be reviewed by second level review appraisers. Reports in which compensation falls within the following percentages of the originally approved compensation will not be reviewed. This, of course, assumes no changes affecting the property have taken place between the times the two reports were completed.

Compensation up to \$10,000:	within 25%
Compensation between \$10,000 and \$50,000:	within 20%
Compensation between \$50,000 and \$100,000	within 15%
Compensation \$100,000 and above	all reports reviewed

An appraisal report for court testimony will be submitted in every case and placed in the files irrespective of whether it is one that will be reviewed.

ON-PREMISE AND ID SIGNS

Valuation of business signs, both free-standing and those attached to buildings, are calculated on a depreciated cost basis. Estimates of the cost new (replacement cost), the amount of accrued depreciation and relocation cost should be obtained from a knowledgeable sign company. One written estimate will suffice where it is obvious the sign structure will not exceed a \$25,000.00 value; two written estimates are required for structures exceeding this value limitation. The removal of sign structures should never be considered a cost-to-cure item. In some instances, it may be necessary to temporarily relocate a sign when it is acquired by a temporary easement. The estimate obtained must reflect the cost of the temporary move and permanent placement after the easement is relinquished.

The sign should always be purchased as a part of the acquisition. A salvage value is computed by subtracting the relocation cost from the depreciated replacement cost. This salvage value will be deducted from the total compensation should the owner retain the structure and be responsible for moving it.

The depreciated replacement cost should include separate values for the base and wiring that cannot be removed, the sign standard and sign face(s).

All tenant owned structures must be identified separately in the appraisal. Like fixtures, a tenant-owned sign requires a release and transfer of all rights, title and interests in it. (See *Tenant-Owned Realty*)

Occasionally, the cost to relocate an aging sign structure, particularly when involving a temporary, then permanent setting, will exceed the depreciated value of the sign. If the sign is part of an on-going business, and the value of the entire enterprise would be damaged by its permanent loss, then compensation for moving the existing sign may exceed its depreciated value but still remain the basis for compensation.

TEMPORARY EASEMENTS

Temporary easements may be acquired for any one of several reasons (building removal, construction, storage of materials, etc.). Usually, compensation for temporary easements is based on a land rental. In those cases a rate of return is applied to the product of the remaining land's unit value having been multiplied by the area being acquired in the easement. (See appraisal form RW 20, Sheet 16, Item 9).

In some situations, a temporary easement acquisition can cause temporary damage to the remaining property. In the opinion rendered in *Commonwealth vs. F. W. Ray, et al*, the Kentucky Supreme Court stated in part:

"it appears necessary to consider the damaging effect of the temporary occupancy of the land upon the adjacent remainder of the landowner's property.....a proper standard is the diminution in the fair rental value of the landowner's adjacent property by reason of the occupancy by the Commonwealth. If the part occupied has some material relevancy to the use of the overall premises, its temporary loss may cause a substantial depreciation in rental value."

The most common temporary loss in value is parking loss during the construction period. This can cause lost income to business properties through reduction in rental rates or increased vacancies. Construction of detours may cause the loss of use of portions of a property, or possibly proximity damage until the detour is removed and the property restored to its original state.

In yet other instances, temporary easements may cause permanent damage to remainders when structures are placed on them. Typically, these are fills or cuts, ditches or other drainage structures. Often, they change the physical characteristics of the land and the highest and best use of the affected areas. In these cases, a permanent damage may be applicable, and would be reflected in the after value.

Some temporary easements are acquired for purposes which only benefit the property. An example would be easements to allow construction for tying in entrances. In some cases involving very high value land, such an easement may be large enough (e.g., those on shopping centers or large commercial tracts) that the land rental becomes very expensive. In these situations where rental compensation appears unconscionably high, the review appraiser has the authority to arbitrarily lower compensation for the easement to what seems like a more reasonable figure.

PERMANENT EASEMENTS

Permanent easements are acquired for any one of a variety of reasons (drainage, drainage structures, retaining wall systems, utilities, etc.). In all instances, portions of the owner's rights in the fee estate are being acquired. Since very seldom are all rights to the land being acquired, it is uncommon for the compensation to approximate the land's fee value. Likewise, if only minor or rarely used rights are being acquired, compensation may reflect an only nominal effect.

Compensation for these acquisitions is usually expressed as a reasonably explained percentage of the fee value which reflects the portions of the owner's rights being acquired.

UNECONOMIC REMNANTS

If the acquisition of only a portion of a property would leave the owner with an uneconomic remnant, the Department is obligated to offer to acquire the uneconomic remnant along with the portion of the property needed for the project. An uneconomic remnant is defined as:

"a remaining part of the property in which the owner is left with an interest that the Transportation Cabinet determines has little or no utility or value **to the owner.**"

Comments clarifying this definition were offered by FHWA prior to its inclusion in the Federal Register. Those comments, in part, are "...the intention here is that the Agency (State), rather than the property owner, have the responsibility to make the final decision on whether a particular remainder is or is not an uneconomic remnant. Since the appraisal process is an Agency (State) Activity, an Agency (State) may handle the matter in its appraisals if it prefers..." and "...the Department (Federal DOT) has a greater concern for those owners who must sell an uneconomic remnant to a third party in order to break even, or who must undertake a totally new business in order to take advantage of a changed highest and best use. Both situations described present a significant financial risk to the owner. The Department (Federal DOT) intends that the Agency (State) offer to assume that risk through an offer to purchase the remainder as an uneconomic remnant..."

Uneconomic remnants are most often created where extensive damages are incurred by the remainder or where there is a change in highest and best use. They are not, however, limited to these two situations.

The appraiser should provide adequate discussion and analysis regarding the utility and, subsequently, the value of any remainder. The review appraiser must have enough information to be able to determine whether or not a remainder is an uneconomic remnant. In situations where uneconomic remnants are believed to exist, based upon the definition above, the appraiser may so state in the discussion of the after value.

The actual determination of whether or not a remainder is an uneconomic remnant is made by the review appraiser. When a parcel has an uneconomic remnant, Item 16 on the Review Sheet (Form RW 87) must be checked and explained under remarks.

In preparing a summary sheet for a parcel with an uneconomic remnant, two values will be supplied:

1. The value found by the review appraiser which is just compensation for the acquisition.
2. The combined value of #1 above and the after value of the uneconomic remnant.

(See also: Reviews and Summaries for Uneconomic Remnants)

EXCESS PURCHASED

Appraisers will occasionally find notations such as **“Excess Purchased”** on plan sheets. The Right of Way Supervisor should be notified immediately that these plans are incorrect. Property cannot be considered “excess purchased” until after it has been bought.

Notwithstanding the perception of a total acquisition, it is not to be considered such from an appraisal standpoint. The reason being that if the owner refuses to sell the excess, it – the excess - cannot be condemned. Therefore, it is actually a remainder. Likewise, FHWA does not participate in funding of excess purchases, so the remainder's value is needed to exclude that amount (i.e., the value of the excess) from their participation in the project.

For this reason, in appraising "excess purchased" properties, the remainder's value must also be a part of the valuation process, as with any other before and after value appraisal report.

Most design engineers and design consultants doing work for the Cabinet have been advised that the notation **“Excess Purchased”** should no longer be used. In essence, there is no such thing. From a final valuation standpoint, most of these remainders will become uneconomic remnants.

PREPARATION AND INTERPRETATION OF PROJECT REPORT FORM RW 75

The importance of proper and thorough completion of this form cannot be overemphasized since it helps to form the basis for the contract appraiser's fee proposal. At the same time it influences, to a great extent, what type of appraisal report the Department will receive. In effect, the review appraiser who prepares the project report is advising the appraiser of how complex the appraisal problem might be and recommending the format by which it should be appraised. Any changes in that format due to unforeseen circumstances will be made later on an individual parcel basis. Since these project reports are used by contract appraisers in preparing their fee proposals, it is not necessary to prepare a project report for assignments to be completed by staff appraisers. One copy of the project report should be sent to the Appraisal Manager, and on projects designated for a right of way consultant, one copy to the Acquisitions Branch Manager.

The "Remarks" column in the main body of the project report should contain sufficient information to give a thorough understanding of the appraisal problem. Abbreviations may be used to save time and space, but even they should be readily recognizable and not a vague composite of letters. In this column, a brief description of the property should be included containing number and type of improvements, present use of the property, current zoning, improvements acquired, physical changes such as grade, access, right of way proximity, physical effects of easements, SI affected, etc. In some cases, commercial and industrial in particular, occupancy of the improvements is extremely helpful. For example, "1-S-masonry business" is not nearly as descriptive as "1-S-masonry business occupied as McDonald's Restaurant." In this column also, the possibility of damage should not be stated as fact such as "proximity damage to residence" or "severance damage exists." That precise determination ultimately is to be made by the appraiser in the field. Only the possibility should be noted such as "new right of way acquires 40% of front yard," "right of way severs cropland into three tracts," or "very small, irregular shaped severance right." Statements such as these latter ones do not predetermine damage but still advise the appraiser of the perceived, severe impact of the acquisition. In the "Remarks" column, the review appraiser should remember that these are capsule descriptions of the acquisition's effect on each property. While they should not be lengthy narratives, neither should they be too brief.

The next column is "Complexity Rating." There are only three options:

BV: (Before Value only). This rating is used when only a before value need be found - when there is no after value, as with a total acquisition. (See also: Appraisal Format Requirements; Section II)

BAV: (Complete Before Value and Complete After Value). This rating is used on partial acquisitions which present a complex appraisal problem. Under this rating, the appraiser would be expected to complete a fully supported before value using all approaches to value that are applicable. Then, complete a fully supported after value using all approaches to value that are applicable. (See also: Appraisal Format Requirements; Section II)

MINOR: (Minor acquisitions only). This rating may be used for either partial or total acquisitions as the situation dictates.

In partial acquisitions, a minor complexity rating is a simple strip acquisition, an acquisition of inexpensive sheds or outbuildings, an acquisition that is not complex, or a combination of any of these. Also, temporary easements (rental value only) when there is no change in physical characteristics of the property that would affect its after value (rental value only), or a permanent easement that does not reduce the value of the remainder more than the fee value of the area acquired in permanent easement. If improvements are **obviously** not affected by the minor acquisition and their value can be estimated, the appraiser should be advised of that under the remarks column. There should be some logical basis for these estimated values, such as assessed value, insured value, abbreviated cost analysis, to name a few.

In total acquisitions, a minor complexity rating is a total acquisition of a vacant tract or a single family residence where market (sales) data is sufficient enough to establish its value. Note that in these cases the rating could be "BV-Minor."

In a MINOR acquisition, the RW 20 is generally modified to include only one (Sales Comparison) approach to value. (See also: *Appraisal Format Requirements*; Section II)

Under the column "Recommended Format" the following are the only three options:

RW 20: This format provides for all three approaches to value, as applicable, in both the before value and the after value.

NARRATIVE: This format will be used rather infrequently and only in unusual circumstances where the RW 20 is not well adapted to the appraisal problem. One example might be a complete before and after value appraisal of a property combined with a feasibility analysis or pro forma for projected improvements and income data which would not adapt itself well to a form appraisal.

MINOR ACQUISITION REVIEW (MAR): These are used for minor acquisitions and are not prepared by appraisers, but by other - usually acquisition - agents. Although not appraisals, they should be noted by the review appraiser preparing the project report to maintain the total parcel count. These acquisitions are limited to \$10,000.

The two columns "Complexity Rating" and "Recommended Format" are separate and distinct. Any one format is not automatically associated with a particular rating. First, the rating should be ascertained keeping in mind what approaches to value should be applicable and how best to address the appraisal problem. Then, the format should be recommended that allows the appraiser to approach the problem and complete the report in that manner. Never assume that an appraiser reading a project report will see the problem in exactly the same way as the person writing the report.

There are two categories of acquisitions; major and minor. The complexity rating "Minor" is one of the options. Major acquisitions fall into one of the two other ratings (BV or BAV). Situations embracing minor acquisitions are described under the MINOR heading above. Every acquisition that is not minor is considered major..... DUHHH !!!

It is not essential to note "Major" complexity in that column for each parcel. The rating of BV or BAV does that automatically. The division of parcels into Major and Minor complexity on the project report's front sheet is done for assistance in assessing the overall complexity of the project

Item 7 on the cover sheet of the project report should be used fully utilized. Under this heading, the review appraiser should give the appraiser an overview of what the assignment might be like, what general problems may be encountered and how the review appraiser expects the appraiser to address those problems. Likewise, unusual circumstances for individual parcels can be described in more detail in this section.

All parcels on the project should be included in the project report. If some parcels will be appraised by staff, only the parcel number need be noted along with the word "STAFF" beside it. This advises Central Office and the fee appraiser that these parcels will not be a part of the contract assignment. Likewise, these staff parcels should be deleted from the totals on the project report cover sheet.

Since no two properties or appraisal problems will ever be exactly alike, this narrative does not cover all the different situations which will arise. The appraiser preparing the individual appraisal report must be the final judge as to what is pertinent to the report and what is not.

RIGHT OF WAY COST ESTIMATES

Cost estimates are used to arrive at administrative decisions and as the basis for establishing funding for a project. An estimate, by definition, is "to produce a statement of the approximate cost of" and, therefore, does not entail the detailed data collection and analysis involved in an appraisal. However, since many facets of a project are based on estimates, a concerted effort must be made to make them as accurate as possible.

Right of way cost estimates fall into one of five classes. The class should be noted on the estimate. They are submitted on a form (Estimated Relocation and Right of Way Costs).

Class A: Parcel by parcel estimate of right of way and relocation costs, plus administrative and court costs, based on complete right of way plans for programming purposes.

Class B: Parcel by parcel estimate of right of way and relocation costs, plus administrative and court costs, based on joint inspection plans.

Class C: Right of way acreage costs and damages, plus improvements, relocation assistance, court and administrative costs, with approximate number of parcels, based on plans available for preliminary line and grade inspection.

Class D: Right of way acreage costs and damages, plus improvements, relocation assistance, court and administrative costs, with approximate number of parcels, based on limited studies of quad sheets, aerial photos, etc.

Class E: Based on Pre-study estimate.

In Class A and B estimates, the parcel by parcel requirement refers to the method of estimating by the appraiser and does not need to be included in the submitted estimate. However, the appraiser should maintain field notes which show the parcel by parcel dollar estimate in the event it is requested.

All estimates are prepared on the Right of Way Cost Estimate Form. However, many estimates now being prepared are Class D and E and will not provide all the information (other than by guess) required. Contingent and limiting conditions in the estimate should be noted on the estimate and/or kept in the field notes. For alternate line or scoping estimates, it is not necessary that a fully qualified appraiser be used to prepare the estimate.

Estimated relocation costs, environmental cleanup costs and administrative/court costs will be provided to fee appraisers by the district offices.

SPECIAL ESTIMATES

Many appraisals involve problems which require the replacement, restoration, relocation, or modification of improvements or site improvements. Among the most common items are paving, fencing, septic systems, water and gas lines, signs and fixtures. When these situations are of a complexity beyond the expertise or experience of the appraiser, it is prudent to seek the assistance of individuals or businesses with a working knowledge in the area of specific concern. The appraiser is reminded that the damage to the property must equal or exceed the amount of curable obsolescence, otherwise compensation must be based on the contributing value of the item.

The appraiser may compile the data and personally make the estimate of cost if the cost or value is less than \$1,000. The appraiser may elect to enlist the services of an expert even below this limit. Property owners are often skeptical of estimates derived from cost manuals and frequently are more receptive to written estimates when they can be assured that a local contractor will actually perform the work for the specified amount. In addition, experts are more likely to recognize significant factors or problems of which the appraiser is unaware. The use of specialists or contractors is encouraged where practical.

When the cost or value estimated exceeds \$25,000, two written estimates by experts other than the appraiser are required. These estimates must be attached to each copy of the appraisal submitted. Although no standard format is required, written estimates should be detailed enough for the reviewer to ascertain the basic components of cost or value. Estimates should also specify the salvage value, if applicable.

Experts or contractors providing estimates should be paid for their services. Although they often offer to make minor estimates or valuations for free, they are less likely to feel obligated to perform in a timely or diligent manner if not paid. Fee appraisers are expected to anticipate the need for such services and to prepare contract proposals accordingly. Unless prior arrangements are made, the Department will not bear the cost of hiring other experts.

The fees for services procured by staff personnel may be paid from the District Office Imprest Cash Fund if the expense is less than \$50. Bills of greater than \$50 should be submitted to the Billing Section in the Central Office. Direct payment to the provider will be made by check. If the provider has previously been assigned a vendor number, the number should be supplied along with the bill. All bills and estimates should be signed and dated. If the cost of the estimate exceeds \$250, prior approval of the second level review appraiser or Appraisal Manager is required. See also: On Premise and ID Signs)

ASBESTOS, HAZARDOUS MATERIALS AND UST'S

Since the appraiser is the first Department representative to fully inspect the property, the presence of these substances will become known to him first. If the appraiser suspects the presence of asbestos or other hazardous material in a property, he should notify the District Right of Way Supervisor at once.

In addition, note should be made prominently in the appraisal report (or a separate attachment) of the suspected presence of the material, type, location and how it will be affected by the project. At this point, the presence of asbestos or other hazardous substance is often only suspected and, therefore, should not be reflected in the valuation process.

During the owner interview, a question of the owner may reveal substances not readily apparent during a thorough inspection (underground fuel tanks) while some (asbestos siding) will be fairly obvious. Possible generators may be: dry cleaners, beauty salons, creosote operations, metal plating operations, service stations with buried fuel tanks and film processing establishments.

This is in no way intended to increase the appraiser's liability in identifying asbestos or hazardous waste but simply to aid the Department in allowing more "lead time" to properly handle these situations. It is Division policy at this time to appraise all properties as "clean" assuming no hazardous materials or contamination present. The economic effect of the presence of hazmats or contamination is dealt with administratively at a later stage in the acquisition process.

Land uses typically associated with hazardous materials are listed on the following page.

Land uses that involve any of the following operations, processes or activities are likely to generate hazardous wastes and to have chemical or fuel storage facilities on-site.

1. Repair and maintenance of motor vehicles (automobiles, aircraft, trucks, construction equipment, RVs).
2. Electroplating and other metal manufacturing and fabricating operations.
3. Metal finishing, refinishing and etching (auto body, printed circuit board manufacturing, jewelry fabrication).
4. Operation or repair of printing and reproduction equipment.
5. Dry cleaning and laundry services.
6. Photographic processing and printing.
7. Analytical laboratory operations.
8. Provision of home, industrial or commercial pest control.
9. Chemical manufacture, formulation or processing.
10. Warehouse operations.
11. Manufacture, formulation or processing of pesticides or agricultural products or chemicals.
12. Home, garden, pool or agricultural supply manufacturing.
13. Textile manufacturing (including fabric dyeing and finishing).
14. Manufacture, refinishing or stripping of furniture or wood products.
15. Cosmetic manufacturing or processing.
16. Chemical treatment of lawns, gardens, yards or provision of other landscape and tree services.
17. Pressure treating or preserving wood products.
18. Building and repair of boats.
19. Production and repair of shoes.
20. Paint formulation and mixing.
21. Metal galvanizing.
22. Drum, barrel and tank reconditioning
23. Battery manufacturing, rebuilding or recycling.
24. Solvent recycling.
25. Scrap metal and junk yard operations.
26. Chemical and petroleum product storage facilities (both above and underground tanks and flammable storage rooms).
27. Landfills.
28. Receive bulk deliveries of raw or processed materials.
29. Lessor or renter of vehicles, maintain fleet operations, rent equipment.
30. Product distribution, consolidation and shipping operations.
31. Waste or spent product incineration.
32. Nursery and greenhouse operations.
33. Schools, auditoriums and other facilities with large heating requirements.
34. Recycling facilities.

PLAN REVISIONS

Frequently, an appraiser encounters situations where a revision of the right of way plans is required or where a plan revision appears to be in the best interest of the KYTC. The most common situation involves a "sell-off" of a portion of the subject property or an assemblage of other property which has occurred since the plans were approved. New construction or removal of improvements which are not indicated by the available plans may also have occurred. It is also possible that an error in spotting improvements on the plans will be found.

Upon determining that a plan change may be needed, the appraiser should immediately notify, in writing, the Right of Way Supervisor or project manager for the project. The notification should include an explanation of the situation and the recommended solution. This procedure will expedite a resolution of the problem and document any delay in completing the appraisal. When a decision is made, the appraiser should be advised of the proper course of action. A change in the appraisal assignment or re-negotiation of appraisal fees may be necessary.

When plan changes are made subsequent to submission of the appraisal, the assigned review appraiser may make the necessary revisions in the appraisal review. Such revisions should include a revised sketch and a clear analysis and discussion of the effects of the change. Substantial changes in the appraisal problem may require a completely new appraisal. In this case, the review appraiser should obtain approval from the second level review appraiser or Appraisal Manager.

When the appraiser observes a situation where a reasonably feasible plan revision will significantly reduce damage to the property and expenditure of funds by the Department, notifying the assigned review appraiser or Right of Way Supervisor for the project is encouraged. This could involve relocation of entrances, movement of right of way lines, reduction of easements, etc. Such action is sometimes taken during negotiations; however, the appraiser is usually aware of these situations and has the earliest opportunity to propose solutions. Although the final decision in these engineering problems does not rest with the appraiser, valuable assistance can be offered in this area.

PERSONAL SERVICE CONTRACTS

Assignments for appraisal work with fee appraisers are made to prequalified appraisers by amendment to the Statewide Appraisal and Court Witness Agreement. Typically, assignments are made after an appraiser has been selected by the Appraiser Selection Committee and has submitted an acceptable fee proposal. The Appraiser Selection Committee consists of the District Right of Way Supervisor, the Appraisal Manager and the Division Director.

1. **Prime Contractor Status:** The Transportation Cabinet's personal service contracts typically call for the personal services of the individual contractor. Further, the contract states that the contractor shall have no authority to transfer, assign or delegate any of the obligations assumed in the contract. The selection of appraisers for assignment is based upon the experience, training, judgment, ability and competency of the contractor. Obviously, if appraisals are received based on the analysis of supporting data made by someone other than the contractor, the Transportation Cabinet is not receiving the personal service it contracted for. This does not preclude an associate or employee from gathering raw field data and information. However, the analysis of market data, value conclusions and contacts with property owners are expected to be the work of the individual under contract. Prime contractor status also requires the appraiser to inspect each subject property and comparable sale, and to contact each property owner on the project.
2. **Change in Scope of Work:** After beginning work on an appraisal assignment, should the appraiser find a situation that has changed in any of the properties and that would change the scope of work, appraisal format and/or fee, approval for the change must be obtained, in writing, from Central Office. Typically, this takes the form of the appraiser writing the Appraisal Manager, identifying the reason for the change and possibly requesting an adjustment in the fee. A response is made in writing either approving or disapproving the change or suggesting an alternative. Payment for changes cannot be made unless prior approval has been granted by Central Office.
3. **Appraisal Submissions:** Submission of data books and appraisal reports should be made to the District Office in accordance with current policy.
4. **Invoices:** Invoices may be submitted to the District Office any time after the work is completed as set out in the contract. Submission of invoices are to be made on Form TC 31-519 "Standard Invoice" with fees set out for individual parcels and the percentage being invoiced.

FEDERAL-AID INELIGIBILITY NOTIFICATIONS

Federal-Aid Ineligibility Notifications are received in the Division's central office via the Secretary of Transportation's office. They must either be answered satisfactorily or lose the federal participation in the amount cited.

After being logged into central office, the citation is returned in reverse to the way the appraisal was initially processed; first to the second level review appraiser, then to the first level review appraiser. In this manner, every appraiser associated with that report is made aware that it has been cited.

The decision to request assistance from the appraiser in answering the citation is left to the first level review appraiser. It is entirely within the authority of the first level review appraiser to request a fee appraiser's aid in answering a citation. Paragraph 9 of the State-Wide Appraisal and Court Witness Agreement states, in part: "If any appraisal prepared under the terms of this contract is cited by the Federal Highway Administration, second party agrees to furnish any information needed for answering said citation at no additional cost to first party."

If the first level review appraiser chooses not to enlist the aid of the appraiser, then he must answer the citation himself. The answer and supporting material is then transmitted to the second level review appraiser for that district who adds any comments and supporting data he may have and transmits it to the Appraisal Manager, who does the same. This allows every appraiser who had contact with the report originally to defend their position relative to its conclusions. Finally, the answer and all supporting data is transmitted under a letter from the Division Director, to the F.H.W.A. Division Administrator. This procedure should not be interpreted as being so strict as to prevent communication between any of the appraisers involved. The primary goal is answering the citation, the procedure simply assures that everyone will have an opportunity to reply.

Often, F.H.W.A. Realty Officers or Realty Specialists will question an appraisal by letter. While this is not a citation, it must be answered in the same manner before it becomes one. Both the citation and the letter are considered formal inquiries and must be answered in writing.

At other times, F.H.W.A. will question an appraisal informally. This usually takes the form of verbal questions or handwritten notes questioning an appraisal. Answers to this type of inquiry follow the same path back to the appraiser but the response may not need to be in writing. Often, these can be answered by the appraiser and/or review appraisers verbally or with a small amount of support data. One effective way to handle this is for the appraiser/first level review appraiser to pass the answer to their second level review appraiser and Appraisal Manager and let them meet with F.H.W.A. The important point to remember is that they need to be answered as soon as possible before they escalate into something that requires a formal response and, therefore, much more time and effort.

Appraisers and review appraisers should bear in mind that citations, and often the formal letters, mean that funds are being withheld. Verbal inquiries mean that funds may be withheld if the questions raised are not answered. Other Divisions in the Cabinet monitor the receipt and final disposition of these withholdings. Therefore, it is essential that any questions raised be answered in a timely manner.

PROPERTY OWNER INTERVIEW AND INFORMATIONAL BOOKLET

The initial contact with a subject property owner is a significant part of the right of way acquisition process. Quite often, appraisers constitute the first encounter a property owner has with an official representative of the Department. Usually, they are the first to have specific knowledge and information about the proposed project's effect on the subject property. The appraiser's sincerity and thoroughness frequently influence the property owner's attitude toward the remainder of the acquisition process and promotes confidence that his interests will be properly served.

PROPERTY OWNER INTERVIEW (Form RW 19): The Property Owner Interview is a valuable aid in addressing the property owner's concerns, as well as their assessment of the appraisal phase of the right of way process. Appraisers, both staff and fee, are expected to explain the acquisition in detail and until the owner is satisfied with the explanation and has no further questions.

Appraisers should complete the heading information at the top, and fill in the two blanks in the acknowledgment near the bottom of the page. The form and a return envelope should be given to the owner or their representative at the time of inspection. The forms are stocked by central office. The envelopes are the same ones used for the Property Owner Surveys.

All property owners or a designated representative must be contacted by the contract appraiser or staff appraiser assigned the subject parcel. Every reasonable effort must be made to do this. Even if the owner does not occupy the property, the appraiser must make personal contact if the owner resides in the general area. Absentee owners who reside out of state or long distances from the project area may be contacted by registered mail. A return, postage-paid envelope should be provided for response.

INFORMATIONAL BOOKLET: The appraiser is required to provide each subject property owner the informational booklet, *Answers to Questions About Right of Way Acquisition*. Prior to contacting property owners, the appraiser should obtain a sufficient number of booklets to cover the assignment from the Right of Way Supervisor responsible for the project. The Property Owner Interview contains an evidential statement that the appraiser has furnished the property owner a copy of this booklet.

DAMAGE ANALYSIS

Direct sales comparison is the preferred method for damage analysis, however, the appraiser will often be faced with a lack of data in sufficient quantity or variety to confidently predict the amount of damage to affected properties. Damage studies can be very helpful when there is inadequate market data available to make direct sales comparisons in estimating after values. A carefully developed and properly applied study can be employed in estimating damages to several parcels which are affected to varying degrees. This will provide a consistent and systematic method of estimating after values on any project.

FORMAT: No specific format is required. This allows the appraiser latitude in creating a damage study. Since the comparable sales report is a part of each appraisal, the analysis, conclusions, methods, procedure, and supporting data must be included as a separate section in the comparable sales report. The appraisal report need only include explanation of the specific effects on the subject remainder, how this relates to the findings of the study, and the resulting conclusion or estimate of damage.

CONDITIONS OF USE: The damage study and its conclusions must be approved by the first level review appraiser and second level review appraiser prior to submission of appraisals in which it is applied. Analyses which are based on undamaged after value estimates taken from previously submitted appraisals are unacceptable. No limitation is placed upon the "age" of comparable sales used, however, economic conditions and the expectations of market participants for the study period and the current date of appraisal must be highly similar. Back-to-back sales of the same property or comparable sales used in paired sales analysis must have occurred within a 5-year span. Studies which have been developed by others and previously found acceptable may be used, however, the appraiser must provide analysis which demonstrates that the study or sales used are appropriate and the conclusions valid for the current project. Failure to relate the study to the current project will result in rejection of appraisals in which it is used.

DEVELOPMENT AND APPLICATION: The purpose of any damage study is to measure the permanent loss in value to a remainder beyond the simple loss of the portion of the property acquired. There are numerous circumstances which may, individually or in combination, cause permanent damage. Among the most common are proximity of improvements to the proposed right of way, changes in grade, triangulation, overimprovement, landlocking, physical alterations in easements, and encumbrances by permanent easements. Typically, proximity, cuts, fills, and landlocking are those which necessitate large scale studies.

The appraiser is required to measure the value of the subject property immediately before the acquisition and immediately after the acquisition considering the road complete. Therefore, any damage study necessarily involves comparing situations which are similar to subject's before the road is built with those which are similar to subject's after the road is built.

The most common method used is research of areas surrounding completed highway projects. It is not imperative, however, that the loss in value attributable to the effect being measured be caused by a previous highway project. For instance, paired sales analysis of comparable properties within any neighborhood where varying house setbacks are found should indicate the extent of market reaction to proximity of a house to the right of way.

The purest and most reliable comparative situation is the back-to-back sale of a property where one sale occurred prior to an acquisition and resale occurred soon after the acquisition. In such a case, the appraiser must report and adjust for any factors other than the effect being measured which would affect the property's value. This may include remodeling, construction of a garage or room addition, severe physical deterioration, market conditions, etc.

Paired sale analysis is another useful method. Lacking back-to-back sales, or in supplement to them, highly similar properties may be compared to isolate the loss in value attributable to the effect being measured. Obviously, the more similar the paired sales are, the less potential for error exists. This method requires very careful analysis and adjusting. Furthermore, it allows cross-comparison of a variety of sales, which may expand the number of comparative situations available for study.

The sales data collected and used in damage studies is subject to the same requirements as comparable sales used in appraisals. The appraiser must compile, verify, analyze, and present the information to the same degree and detail as normally required. Again, the sale dates of back-to-back and paired sales must be no greater than five years apart. Any general increase or decrease in property values over the period between sales must be documented.

Appraisers should develop their own studies whenever possible. It is extremely important that the property types and economic influences in the study area and current project area are very similar. Care must be taken to ensure that changes in value are not caused by transition to other uses or general changes in the character of the neighborhood.

Although no specific analytical process or format is required, the data, narrative explanations, and conclusions should be presented in a clear and straightforward manner. The use of visual aids such as graphs and charts are very helpful and their use is encouraged. Computers and advanced calculators make possible complex statistical analysis, but do not relieve the appraiser of the responsibility of fully explaining the methods used. If computer software is used, the name and version should be stated. The appraiser is obligated to demonstrate the application of any software programs or formulas used upon request by the assigned review appraiser.

STATEWIDE DATA BANK: A continuous effort will be made to collect and maintain a bank of damage-related data in the Central Office. Submission of separate copies of all approved damage studies to the Appraisal Manager is required. Additionally, all staff and fee appraisers are encouraged to collect and submit on a piecemeal basis any sales data relative to damaged properties. Such information may then be made available to appraisers upon request.

PERSONAL PROPERTY AND FIXTURES

PERSONAL PROPERTY: Under state law and policy, a condemning authority does not compensate an owner for personal property being acquired. However, the Department of Highways is required to pay for relocation of an owner's or tenant's personal property that must be moved due to acquisition or damage of the improvement in which it is located. In many cases - residences for instance - personal property is easily identified. In other cases, property considered to be personal must be identified in detail so that the Department's relocation section will know what they are required to relocate and what has been considered real estate or fixtures and is paid for in the appraisal as part of the acquisition. This is especially true in properties such as restaurants, "C" stores, service stations and other commercials. No value should be placed on the personal property; just identified as being separate from the real estate and fixtures.

FIXTURES: The generally accepted definition of a fixture is "an item that was once personal property but has become so affixed to the real estate that the law would now consider it to be real estate." For such an item to be considered a fixture, and therefore real estate, the following tests are usually applied:

- (a) Manner of annexation to the real estate
- (b) Adaptability to the improvement's use
- (c) Intention of the parties involved
- (d) Existence of a contractual agreement

If the item is attached to the improvement in a manner that its removal would damage the improvement or the item; if it is adapted to the improvement's use; if the intention of the parties was for the item to remain, or, if there is an agreement between the parties stipulating the item is a fixture, then it is probably a fixture.

Appraisers are often called upon to make a decision whether or not an item is personalty or real estate. The foregoing is offered as a guide. When unusual circumstance arise, call the second level review appraiser assigned to the project.

SATELLITE DISHES AND ABOVE GROUND POOLS: By an administrative decision, satellite TV dishes and above ground pools (owned by the property owner) are considered to be fixtures and should be included in the appraisal report as site improvements. Although open to argument, it is the opinion of central office that the satellite dish extends to the electronic hardware which carries the signal into the set.

Whenever satellite dishes or above ground pools belong to the owner of the land, they will be included in the appraisal and purchased. In cases where the landowner and the owner of a satellite dish or above ground pool are not the same, they shall be considered personal property, omitted from the appraisal and handled through the Relocation Assistance Program.

(See also: *Tenant Owned Realty*)

GUIDELINES FOR COMPENSATION ON OIL AND GAS WELLS

There are times when a new right of way acquires a gas or oil well. In these instances, the Department no longer purchases the underground reserves, but only the well bore, casing and well head equipment. Compensation may also include damage to the reserves.

The appraiser should provide a salvage value analysis of the well and equipment including the cost to close or plug the well. It is noted again that compensation is for the value of the well only, and not for the value of any interests in reserves or production.

